IIEC Exhibit 3

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS POWER COMPANY	:	
	:	
Proposed revisions to delivery service tariff sheets and other sheets	:	Docket No. 01-0432
	:	

Direct Testimony of

Nicholas Phillips, Jr.

On behalf of

Illinois Industrial Energy Consumers

September 2001
Project 7626

BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

STATE OF ILLINOIS

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Direct Testimony of Nicholas Phillips, Jr.

I. Introduction

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Nicholas Phillips, Jr.; 1215 Fern Ridge Parkway, Suite 208; St. Louis, MO 63141-2000.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation in the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants. Our firm and its predecessor firms have been in this field since 1937 and have participated in more than 1,000 proceedings in forty states and in various provinces in Canada. We have experience with more than 350 utilities, including many electric utilities, gas pipelines and local distribution companies (LDC). I have testified in many electric and gas rate proceedings on virtually all aspects of ratemaking. More details are provided in Appendix A of the testimony.

Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A I am testifying on behalf the Illinois Industrial Energy Consumers (IIEC), an ad hoc group of large industrial customers of Illinois Power Company (IP or Company).

Q WHAT ISSUES DO YOU ADDRESS IN YOUR TESTIMONY?

A I will address selected revenue requirement issues, cost of service and delivery service rate level proposals of IP.

II. Summary of Recommendations

Q PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A A summary of my recommendations is listed below.

1. IP should not be allowed to increase the amount of Administrative and General (A&G) expense associated with Distribution Service over the amount authorized by the Commission in the last delivery service case by 300%. A more reasonable approach is to allow A&G expense to increase in proportion to the authorized increase in other (non-A&G) O&M expense in this case.

2. IP should not be allowed to increase the net amount of Intangible and General Plant cost associated with Distribution Service over the amount authorized by the Commission in the last delivery service case by 250%. A more reasonable approach is to allow net Intangible and General Plant cost to increase in proportion to the authorized increase in other (non-A&G) O&M expense in this case. New projects included in IP proposed adjustments can be included to the extent found appropriate by the Commission.

3. IP's delivery service rates for demand metered service were approved on August 25, 1999 for service in October 1999 based on costs and rates proposed by IP in the 1999 DST case. It would be inappropriate to redesign and radically change these rates in this proceeding as proposed by IP.

4. The results of IP's embedded cost of service study (ECOSS) indicate that the demand metered class is responsible for $85 million or 28% of IP's total revenue requirement, which is lower than the comparable amounts proposed by IP in the 1999 DST case.

5. It is recommended that the basic structure of the demand metered rates not be changed in this proceeding. Customers have been studying and becoming acquainted with these rate structures since October 1999. I recommend that each element of the currently authorized demand metered rates be increased by an equal percentage to preserve existing rate relationships and provide for rate continuity. The percentage increase for the demand metered rate class proposed by IP is 15.2% based on IP's requested revenue requirement in this proceeding. To the extent IP's requested revenue requirement is reduced, the rate increase to the demand metered class should be reduced proportionately.

III. Revenue Requirement

Q PLEASE BRIEFLY DESCRIBE THOSE ASPECTS OF IP'S DELIVERY SERVICE PROPOSALS THAT YOU WILL BE ADDRESSING.

A I will address IP's proposed level of A&G expenses and General Plant costs (including intangible plant). IP has proposed significant increases in these costs for inclusion in delivery service rates in this proceeding. It is estimated that the requested increases in A&G expense and General Plant account for about 60% of the entire increase in revenue requirement sought by IP in this proceeding. A comparison of Commission-authorized amounts for A&G expense and Intangible and General Plant costs in the 1999 DST case with the amounts requested by IP in this proceeding is shown on the table below.

Comparison of A&G, Intangible and General Cost Authorized in 1999 DST Case and IP Current Request ($Millions)

Description	1999 DST Order	Current IP Request	Cost Increase	Revenue Requirement Increase
A&G	$15.9	$47.1	$31.2	$31.2
Net Intangible and General Plant	$75.2	$191.6	$116.4	$14.2
Depreciation Expense for Intangible & General Plant	$2.9	$12.4	$9.5	$9.5
Increase in IP Requested Revenue Requirement Associated with A&G, Intangible and General Plant				$54.9
Total IP Requested Revenue Requirement Increase				$91.6
Percentage of Requested Increase Associated with A&G, Intangible and General Plant Requested Increases to Total Increase				60%

Q PLEASE PROVIDE SOME PERSPECTIVE CONCERNING THIS FILING.

A In the last IP case to establish the Delivery Service Implementation Plan and Tariffs (Docket Nos. 99-0120 and 99-0134, referred to as the 1999 DST case), IP requested that the Illinois Commerce Commission (ICC or Commission) establish a revenue requirement for distribution service of $316.6 million. The Commission Order, issued on August 25, 1999, approved a revenue requirement for IP delivery service of $220.5 million. Rates were established on the basis of the Commission-approved revenue requirement. In this filing, IP has requested a revenue requirement of $312.0 million for delivery service.

Q WAS THE ESTABLISHMENT OF AN APPROPRIATE AMOUNT OF A&G EXPENSE A MAJOR ISSUE IN THE 1999 DST CASE?

A Yes. In the 1999 DST case, IP requested A&G expense in the amount of $35.2 million for the delivery service function. The Commission Order allowed A&G expense in the amount of $15.9 million as an appropriate expense for the delivery service function. It is my understanding that the disallowed amount of approximately $20 million was found to be more appropriately associated with IP's generation function.

The Commission Order in the 1999 DST case found operation and maintenance (O&M) expense in the amount of $67.1 million appropriate for delivery services. Therefore, for each dollar of O&M expense authorized by the Commission, approximately 23.7¢ of A&G or "overhead" was found as a reasonable cost to provide delivery service ($15.9 million allowed A&G divided by $67.1 million allowed O&M).

Q WHAT ARE THE BASIC COSTS THAT ARE COVERED BY A&G EXPENSES?

A A&G expenses are primarily related to the corporate level activities of the utility such as the salaries of corporate officials, pensions and benefits, injuries and damages, office supplies, miscellaneous expenses and are sometimes referred to as "overhead."

Q WHAT LEVEL OF A&G EXPENSE HAS IP REQUESTED IN THIS FILING?

A In its corrected filing, IP indicated that its A&G expense level was Approximately 72 ~~$70.9~~ million. IP witness Peggy Carter recommends two significant adjustments that lower the amount of A&G expense to $47.1 million. My understanding of witness Carter's significant

adjustments relate to the elimination of Dynegy executive bonuses of $7.8 million and a reduction in cost associated with the elimination of employees of approximately $14.5 million. Therefore, the A&G expense requested by IP for delivery service cost in this proceeding is $47.1 million, or almost 300% of the amount found appropriate in the 1999 DST case.

Q IN YOUR OPINION, HAS IP EXPLAINED THE TRIPLING OF THE AMOUNT OF A&G EXPENSE THAT THE COMMISSION FOUND APPROPRIATE IN THE 1999 DST CASE?

A No. IP is requesting that an additional $31 million, over their previously authorized amount of A&G, be allowed as a delivery service cost and charged to customers without explaining the significant increase. IP's proposal to raise A&G expense by $31 million amounts to about one-third of its requested increase of $91.6 million in delivery service revenue requirement. As I stated above, under the current cost levels approved by the Commission in the 1999 DST case, A&G expense added approximately 23.7¢ to every dollar of O&M expense required to provide delivery service. At the expense levels filed by IP in this proceeding, A&G would represent an additional 66.5¢ to every dollar of O&M expense required for delivery service ($47.1 million requested A&G divided by $70.9 million requested O&M). The burden should be on IP to explain why ratepayers should pay such a significant increase in overhead for the provision of delivery service. IP has not met this burden.

Q WHAT IN YOUR OPINION IS IP APPARENTLY SEEKING TO DO WITH REGARD TO A&G EXPENSE IN THIS PROCEEDING?

A IP appears to be trying to recover expenses that the Commission determined were not distribution related in the last IP DST case in the delivery service rates it proposes in this case.

Q PLEASE COMMENT ON IP'S CLAIM THAT IT IS USING THE LABOR ALLOCATION METHOD ADOPTED IN THE LAST PROCEEDING.

A IP claims that it allocates A&G to functions based on a labor allocator. IP, however, apparently does not allocate any A&G to the production function because it has been sold or divested. However, a significant amount of A&G was allocated to the production function and out of the distribution function in the 1999 DST case. The sale of IP's generation business does not cause the A&G required for distribution to triple. The allocation of residual costs to the distribution function is not reasonable under such circumstances.

The result of an allocation method must be examined for reasonableness. IP's allocation of A&G to distribution does not produce a reasonable result and should be rejected.

IP appropriately recognized sales expenses that were part of its total O&M cost were reassigned to the "production" classification in the 1999 DST case and has not included sales expense as an O&M cost required for distribution service in this filing. Likewise, A&G expense that was not allocated to the distribution functions in the 1999 DST case should not be considered as distribution related in this case.

Q WHAT APPROACH DO YOU RECOMMEND WITH RESPECT TO THE ESTABLISHMENT OF AN APPROPRIATE LEVEL OF A&G EXPENSE FOR THIS PROCEEDING?

A I recommend that the relationship between A&G expense and the amount of O&M expense required to provide delivery service as established in the 1999 DST case be maintained. To the extent the Commission approves increased amounts of O&M expense for the adequate provision of delivery service, the amount of overhead or A&G should be increased proportionately. The quantities for O&M and A&G are shown on IIEC Exhibit 3, Schedule 1. To maintain a constant percentage of A&G expense to O&M expense, the amount of A&G required would be $16.8 million, which maintains a constant 23.73% overhead requirement to valid O&M expenses required for delivery service. This methodology maintains the relationship of A&G expense to O&M expense derived from the 1999 DST order.

Q IS THERE A SIMILAR PROBLEM WITH REGARD TO THE AMOUNT OF INTANGIBLE AND GENERAL PLANT COST PROPOSED BY IP IN THIS PROCEEDING?

A Yes. IP's corrected filing includes net Intangible and General Plant costs of $191.6 million compared to an amount of $75.2 million found appropriate in the 1999 DST case. In the 1999 DST case, IP had requested net Intangible and General Plant costs of $166.5 million. It is my understanding that the Commission found it appropriate to refunctionalize the majority of the Intangible and General Plant requested for delivery service by IP to the production function. In this proceeding, IP

is requesting net Intangible and General Plant costs that are two and one-half times the level authorized as appropriate for delivery service in the 1999 DST case.

Q TO YOUR KNOWLEDGE, HAS IP PRESENTED ANY VALID REASON FOR THIS SIGNIFICANT INCREASE IN THE AMOUNT OF NET INTANGIBLE AND GENERAL PLANT COSTS?

A IP has not presented valid reasons for the initial amount of net Intangible and General Plant, but has presented explanations for adjustments to the amount for various projects it has undertaken.

Q WHAT DO YOU RECOMMEND WITH RESPECT TO THE APPROPRIATE AMOUNT OF NET INTANGIBLE AND GENERAL PLANT COSTS FOR THIS PROCEEDING?

A I recommend that the initial amount of net Intangible and General Plant only be increased in proportion to the increased amount of O&M expense required for delivery service. The additions and adjustments to net Intangible and General Plant requested by IP should be allowed to the extent that IP presents valid reasons for their inclusion. IIEC Exhibit 3, Schedule 2 shows my recommendation with respect to net Intangible and General Plant costs. I have increased net Intangible and General Plant costs by the same percentage amount that IP's requested O&M expense level has increased over the previously authorized amount. I have included all of the proposed adjustments to General Plant contained in the IP original filing. The result of this approach is a decrease in the proposed level of net intangible and General

Plant from $191.6 million to $111.1 million. Depreciation expense associated with intangible and General Plant should be adjusted accordingly.

Q HAVE YOU PERFORMED ANY REASONABLENESS CHECK TO THIS APPROACH?

A Yes. I have compared the results of my recommendation to that of the Commission's last order on IP delivery service rates. In the order approving cost for delivery service in the 1999 DST case, net Intangible and General Plant amounted to about 11.4% of the total allowed rate base. My recommended amount of net Intangible and General Plant of $111.1 million is 11.8% of the rate base proposed by IP in this proceeding. Therefore, the relationship of the amount of net investment in Intangible and General Plant to total rate base has been slightly increased under my recommended approach.

Q SHOULD IP BE ALLOWED TO REFLECT THE FULL AMOUNT OF ITS REQUESTED INTANGIBLE AND GENERAL PLANT COSTS IN ITS REVENUE REQUIREMENT?

A No. In the 1999 DST Order, the Commission found that more than half of IP's requested Intangible and General Plant costs were not related to the distribution function. These costs found by the Commission to be unrelated to distribution service and not allowed in delivery service should not now be allowed as appropriate distribution costs in this proceeding.

IV. Cost of Service

Q HAVE YOU REVIEWED THE TESTIMONY AND EXHIBITS FILED BY IP WITNESS KAREN ALTHOFF?

A Yes. She presents the results of IP's ECOSS for the electric distribution segment. The entire testimony concerning the ECOSS is contained from Line 32 of Page 2 of the direct testimony to the bottom of Page 4 of the direct testimony. I would describe the testimony presented by witness Althoff concerning the ECOSS as very generalized and in the nature of an overview. No specific detail concerning quantities or allocation factors used in the cost of service study is contained in the direct testimony. Although it is an ECOSS, the testimony states, "Meters and services were allocated to rate classes based on current replacement cost of the types of assets required to serve the individual rate classes." It is very unusual and inappropriate for an ECOSS to allocate embedded cost on the basis of replacement cost. However, no detail was provided concerning the replacement cost study or how it was utilized to allocate cost within the ECOSS.

Q PLEASE DISCUSS THE ECOSS EXHIBITS PRESENTED BY IP.

A IP Exhibit 8.2 consists of two pages and purports to be a brief summary of the ECOSS. Page 1 of IP Exhibit 8.2 shows four rate classes and a total jurisdictional amount for the broad components of rate base and expenses. No current rate of return or revenue quantities are provided. From an examination of the Exhibit, detail associated with major items such as A&G expense or General Plant, or any categories within O&M expense or plant in service is not provided. With respect to

rate classes, Rate Class 3 is designated as the total non-residential demand class. No subcomponents of that class are provided on any of IP's cost of service exhibits.

Page 2 of 2 of IP Exhibit 8.2 purports to show the revenue required from each broad rate class and from the entire jurisdiction. Once again, the Exhibit is very much a summary and lacks specific detail. The total non-residential demand Rate Class 3 does not provide any detail concerning cost by size or voltage level.

The data shown for the non-residential demand Rate Class 3 on Exhibit 8.2 does not support any change to intra-class rate design.

Q HAS IIEC BEEN ABLE TO SECURE ADEQUATE BACKUP AND SUPPORTING DOCUMENTATION FROM IP CONCERNING INPUT DATA, LOGIC, FORMULAS AND OTHER SPECIFIC DETAIL REQUIRED TO ANALYZE AND VERIFY THE RESULTS OF THE SUMMARY IP EXHIBIT 8.2?

A No. In response to a data request, IP initially provided a cost of service study model in electronic format that would not perform or run. IP's explanation was that in the process of "masking" or "hiding" the formulas, something was done that prevented the cost of service model from running. IP then provided another model that would run and display quantities, but most formulas that would explain the logic and mathematics for the development of quantities were all "masked" or "hidden." Therefore, IIEC was not able to perform an adequate analysis to verify or comment about the results of the IP ECOSS to the extent necessary.

IIEC also asked for a hard copy of the cost of service study. The hard copy provided by IP was incomplete and not entirely reflective of IP Exhibit 8.2. The expense items shown in the hard copy do not add up to the total operating expense

quantity shown on Exhibit 8.2, Page 1 of 2. IP representatives indicated verbally that the reason the expenses on the hard copy do not add up to the total operation expense shown on Exhibit 8.2, Page 1 of 2 was that the cost of service study model calculated income taxes differently than they were calculated in IP Exhibit 8.2. The hard copy of the cost study does not contain all the allocation factors, the mathematical formula and other supporting detail required to analyze and verify the accuracy of the study. The supporting detail we received contained only quantities of numbers in various columns and rows without any detail indicating the logic supporting why the numbers were in the columns or rows.

With respect to IP Exhibit 8.2, Page 2 of 2, which shows the revenue requirement by class in a very summarized format, we received no supporting documentation.

Q PLEASE COMMENT ON THE SUBJECT OF INTRACLASS REVENUE ALLOCATION FOR THE THREE CATEGORIES OR SUBCLASSES CONTAINED WITHIN THE TOTAL NON-RESIDENTIAL RATE CLASS 3 CLASSIFICATION.

A There are no exhibits concerning embedded cost of service that show any of the subclass categories for the total non-residential demand Rate Class 3 classification.

Q WHY IS COST SUPPORT AND DOCUMENTATION FOR THE SUBCLASSES WITHIN THE NON-RESIDENTIAL DEMAND RATE CLASS 3 IMPORTANT?

A IP is proposing to change the intraclass rate design recently established in the 1999 DST case. IP's significant departure from what was done in the last proceeding results in increases in delivery service charges to large customers of approximately

100%. These customers are large, high voltage customers, which are adversely impacted by the intraclass rate design proposed by IP in this case. However, with respect to supporting intraclass cost detail, there are no exhibits presented that show any cost information concerning the subclasses for the non-residential demand category.

Q DO YOU HAVE ANY OTHER CONCERNS REGARDING THE COST OF SERVICE STUDY SHOWN IN SUMMARY FORMAT ON IP EXHIBIT 8.2?

A Yes. IP witness Althoff indicates that the total ECOSS distribution services revenue requirement mirrors the revenue requirement presented by IP witness Daniel Mortland. Although not shown in any detail in Exhibit 8.2, this would indicate amounts for A&G expense and Intangible and General Plant investment and associated depreciation expense were included in the ECOSS, which are greatly in excess of the amounts authorized by the Commission, as appropriate for distribution service, in the 1999 DST case. I suspect that the inclusion of A&G, which is approximately 300% of the amount allowed by the Commission in the 1999 DST case, and the inclusion with Intangible and General Plant, which is 250% of the amount authorized in the last case, would distort the cost of service study as summarized in IP Exhibit 8.2.

Q HOW COULD THE INCLUSION OF EXCESSIVE AMOUNTS OF A&G EXPENSE AND INTANGIBLE AND GENERAL PLANT COSTS DISTORT THE ECOSS?

A An examination of IP Exhibit 8.8 provides insight into this problem. IP Exhibit 8.8 shows the development of unbundled meter costs. With respect to rate base, more

General Plant investment and Intangible Plant investment have been allocated to meter rate base than the investment in the actual meters. Page 1 of 4 of IP Exhibit 8.8 shows distribution plant of $33.3 million, General Plant of $36.9 million and Intangible Plant of $12.8 million. Therefore, plant in service associated with unbundled meter cost consists of $33.3 million for meters and $49.8 million for Intangible and General Plant. Intangible and General Plant investment amounts to about one and one-half times the actual distribution investment.

A similar problem occurs with respect to Metering Services Operating Expenses shown on Page 2 of 4 of IP Exhibit 8.8. There it shows that O&M, Customer Accounts expense and depreciation of distribution plant total $10.8 million. A&G expense and depreciation expense for Intangible and General Plant amount to $10.7 million.

The problem is that overhead costs (A&G, Intangible and General Plant) are dwarfing the metering costs, which are the subject of the study shown on P Exhibit 8.8. The results of the study are highly suspect due to the inclusion of massive amounts of overhead expense, which do not appear in the categories listed in "Metering Embedded Cost of Service Study" summarized on IP Exhibit 8.9. In IP Exhibit 8.9, the quantities for A&G, Intangible and General Plant costs are included as part of rate base and expenses, but represent an unduly large percentage of the costs shown and could easily distort the results.

It is extremely doubtful that a meter investment of $1 caused an investment in Intangible and General Plant of $1.50 as stated in the cost study. It is also extremely doubtful that $1 of meter expense caused about $1 of A&G and other overhead expenses associated with Intangible and General Plant as stated in the cost study. It

appears that the cost study is distorted by attempting to allocate costs to classes that are not caused by distribution customers, but are residual costs from some other unrelated function (or functions). Therefore, the principle of cost causation has been abandoned in the IP ECOSS.

Q HAVE YOU REVIEWED THE RESULTS OF THE BROAD ALLOCATION OF THE NET REVENUE REQUIREMENT BY CLASS IN THIS PROCEEDING AS COMPARED TO THE SIMILAR IP PRESENTATION IN THE LAST PROCEEDING, OR THE 1999 DST CASE?

A Yes. With respect to the non-residential demand class, the current IP filing indicates that demand metered general service should account for 28% of the total company revenue requirement. That result is actually less than IP's presentation in the 1999 DST case. To be more specific, IP requested a revenue requirement for the demand metered general service class of slightly over $100 million in the 1999 DST case, while IP's request for a net revenue requirement from the demand metered service class is approximately $85.7 million in this case. A comparison of the revenue requirements requested by class in this case versus the 1999 DST case by IP is shown on my Schedule 3. These quantities are based on IP receiving its total net revenue request, which is unlikely but presented here for consistency purposes.

Q WHAT CONCLUSION DO YOU DRAW FROM THIS COMPARISON?

A The revenue requirement for the non-residential demand class has decreased by $15.5 million, or about 15.3%, from IP's filing in the 1999 DST case. According to IP's ECOSS, the proportionate share of the total company revenue requirements for

the non-residential demand class has decreased from 32.8% in the 1999 DST case to 28.4% in IP's current filing. Therefore, IP's studies indicate that the cost of serve the non-residential demand class has decreased significantly from the 1999 DST case.

Q HAVE YOU REVIEWED THE TESTIMONY AND EXHIBITS PRESENTED CONCERNING THE ALLOCATION OF THE DELIVERY SERVICE REVENUE REQUIREMENT AND RATE DESIGN PRESENTED BY IP WITNESS LEONARD JONES?

A Yes. IP witness Jones takes the net revenue requirement amounts by class from IP Exhibit 8.2, previously discussed. The revenue allocation for delivery service is presented on IP Exhibit 6.2. sponsored by Mr. Jones. As previously indicated, demand metered general service would receive 28% of any delivery service revenue requirement found appropriate for IP delivery service by the Commission in this proceeding.

Q IS ANY COST INFORMATION CONTAINED IN THE EXHIBITS SPONSORED BY IP WITNESS JONES CONCERNING INTRACLASS COSTS FOR DEMAND METERED DELIVERY SERVICE?

A No. Although witness Jones indicates that he ". . . generally relied upon the applicable bundled rates, marginal costs and embedded costs to develop the rate design.", no marginal costs or verifiable embedded costs are included in his exhibits. To my knowledge, no exhibits have been presented that show any marginal cost for the non-residential demand classification or any other classification. In addition, there are absolutely no cost categories shown in any exhibits by witnesses Althoff and

Jones concerning the subcategories within the demand metered class. In other words, the IP filing fails to demonstrate exactly how the intraclass costs for demand metered delivery service were determined and used to develop rates.

Q IS ANY OTHER DATA CONTAINED IN THE EXHIBITS OF WITNESS JONES?

A IP witness Jones presents IP Exhibit 6.4 showing billing determinants used to develop the proposed rates for delivery service, which he indicates are based on 2000 historical data for the Company's electric customers.

Q ARE THERE ANY ERRORS IN MR. JONES' EXHIBITS?

A Yes, the Company has stated the billing determinants in Exhibit 6.4 for the demand metered class and possibly the small use general service class are in error. The Company has advised the parties the historic billing determinants presented in Exhibit 6.4 were not properly calculated. However, to my knowledge, the Company has not filed any revised testimony or exhibits at this date.

Distressingly, the data provided by IP shows that the Company's historic year 2000 revenue is significantly misstated and erroneous. According to IP Exhibit 6.4, IP's year 2000 present revenue is shown as $101.5 million. No residential revenues are included in this total. IP has now suggested, in material furnished to the parties advising of the error in calculation of billing determinants, the year 2000 non-residential revenue may be only $90.7 million. Therefore, IP's stated revenues for the year 2000 may be significantly misstated.

Q WHY IS THIS A SIGNIFICANT CONCERN?

A The demand values used for billing demands of the various classes for calculating revenue and designing rates by Mr. Jones on Exhibit 6.4 are in error. It appears that the billing determinants from historical year 2000 were also used as the basis for allocating demand-related costs in the ECOSS. This is demonstrated by the IP response to CUB Data Request Item 3.01.

"Request:
(ii) Explain in words how the DEMSUBTR and DDSUBTR allocators were developed.
Response:
Average kW billing determinants from historical year 2000 were extracted from our billing system based on delivery and supply voltage levels. These billing determinants (schedule 3.01B) were grouped by residential and small use general service (segment 1), demand metered general services – up to 200 kW (segment 2), demand metered general services – 200 to 1000 kW (segment 3) and demand metered general services – over 1000 kV (segments 4 and 5). The second column of 3.01B reflects our various service classifications. Column three reflects the billing determinant description. For development of the allocators, the average kW was utilized as reflected on schedule 3.01C in the first four numerical columns entitled, primary, secondary, subtransmission and transmission. Percentages based on total average kW for all services classifications (service class 2, 3, 10 etal.) were developed. These percentages were then multiplied by the total service classification (for example: service class 2, 3, 10) NCP or CP on schedule 3.01D – Analysis of Energy at Demand Data – to derive voltage level NCP or CP levels."

The use of the wrong billing determinants as a basis for developing allocation factors would cause errors in the ECOSS.

V. Rate Design

Q HAVE YOU REVIEWED IP'S PROPOSED RATE DESIGN CHANGES FOR DEMAND METERED GENERAL SERVICE?

A I have reviewed the data. However, as previously indicated, it is erroneous. In general, IP is proposing significant changes to the intraclass rate components

contained within the demand metered class. There is no supporting cost data for the significant changes in any exhibits presented by IP. In addition, the only rate design exhibit, IP Exhibit 6.4, showing revenue increases by class must be considered in error because the billing determinants used in the Exhibit are wrong.

Q YOU STATED THAT IP IS PROPOSING SIGNIFICANT CHANGES IN RATE DESIGN WITHIN THE DEMAND METERED CLASS. WHAT CHANGES DO YOU CONSIDER TO BE SIGNIFICANT?

A Changes in the rate structure that cause increases to customers that range from 10% to over 100%, based on a class average increase of 15.2%, are extremely significant. High voltage demand charges have been increased by more than 100% by IP. High voltage meter charges have been increased by more than 100% by IP. As previously explained, the meter charge cost study contains more overhead costs than meter costs.

Q BASED ON THE DATA THAT YOU HAVE AVAILABLE, WHAT DO YOU RECOMMEND?

A First, I strongly recommend that the rate design established for the demand metered general service class as implemented in October 1999 not be changed in this proceeding as proposed by IP. There is no cost data presented by IP in the filing in this case that warrants such a change and the concept of rate continuity as expressed by IP would be significantly violated by implementing a radical change at this early juncture of offering delivery service. I will offer a recommendation based on the only data available as presented in the IP filing.

Also, IP data suggests that the demand metered general service class should provide 28% of the revenue requirement found appropriate by the Commission. That quantity is somewhat consistent with the Commission findings in the last IP case. Rate design was implemented for the demand metered general service class and found appropriate by the Commission, based on evidence presented by IP and others, in the last proceeding. This supports my recommendation the rate design approved in the 1999 DST case be continued and not changed in this proceeding.

Second, on IP Exhibit 6.4, Page 2 of 5, IP currently proposes a total increase of $11.3 for the demand metered general service class. For subgroupings within the class, IP has changed the intraclass rate design to produce distorted results without presenting adequate justification. Therefore, based on IP's current filing, I recommend for this proceeding, all elements of the currently authorized demand metered general service rate be increased by an equal percentage equivalent to the increase for the demand metered class. This will preserve the rate relationships found appropriate by the Commission in the 1999 DST case and provide rate continuity to customers working with the rates authorized by the Commission for use in October 1999.

IP Exhibit 6.4, Page 2 of 5 shows a 13% increase for the demand metered general service class. However, that percentage is actually in error since it is based on dividing the proposed increase by proposed revenues instead of current revenues. If IP's proposed increase to the demand metered rate class is divided by the present revenues shown on Exhibit 6.4, the increase would be 15.2% based on IP's requested revenue requirement in this case. To the extent IP's requested revenue

requirement is reduced, the rate increase to the demand metered class should be reduced proportionately.

To illustrate my recommendation, I have prepared a rate design that would increase all elements of demand metered general service by the equal percentage as proposed by IP, as shown in my Schedule 4. This will continue and exactly preserve the relationships found appropriate by the Commission in the 1999 DST case and remove the issue of the lack of cost support, adequate documentation, and erroneous data in the IP filing.

Q DO YOU HAVE ANY OTHER STATEMENT TO OFFER?

A Yes. The recommendations contained in my testimony are a function of the IP direct case filing as it exists today. If elements of that filing change, my recommendations may change accordingly.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes.

7626/24500

Qualifications of Nicholas Phillips, Jr.

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Nicholas Phillips, Jr. My business mailing address is P. O. Box 412000, 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and am a principal in the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EMPLOYMENT EXPERIENCE.

A I graduated from Lawrence Institute of Technology in 1968 with a Bachelor of Science Degree in Electrical Engineering. I received a Master's of Business Administration Degree from Wayne State University in 1972. Since that time I have taken many Masters and Ph.D. level courses in the field of Economics at Wayne State University and the University of Mssouri.

I was employed by The Detroit Edison Company in June of 1968 in its Professional Development Program. My initial assignments were in the engineering and operations divisions where my responsibilities included the overhead and underground design, construction, operation and specifications for transmission and distribution equipment; budgeting and cost control for operations and capital expenditures; equipment performance under field and laboratory conditions; and

emergency service restoration. I also worked in various districts, planning system expansion and construction based on increased and changing loads.

Since 1973, I have been engaged in the preparation of studies involving revenue requirements based on the cost to serve electric, steam, water and other portions of utility operations.

Other responsibilities have included power plant studies; profitability of various segments of utility operations; administration and recovery of fuel and purchased power costs; sale of utility plant; rate investigations; depreciation accrual rates; economic investigations; the determination of rate base, operating income, rate of return; contract analysis; rate design and revenue requirements in general.

I have held various positions including Supervisor of Cost of Service, Supervisor of Economic studies and Depreciation, Assistant Director of Load Research, and was designated as Manager of various rate cases before the Michigan Public Service Commission and the Federal Energy Regulatory Commission. I was acting as Director of Revenue Requirements when I left Detroit Edison to accept a position at Drazen- Brubaker & Associates, Inc., in May of 1979.

The firm of Drazen-Brubaker & Associates, Inc. was incorporated in 1972 and has assumed the utility rate and economic consulting activities of Drazen Associates, Inc., active since 1937. In April 1995 the firm of Brubaker & Associates, was formed. It includes most of the former DBA principals and staff.

Our firm has prepared many studies involving original cost and annual depreciation accrual rates relating to electric, steam, gas and water properties, as well as cost of service studies in connection with rate cases and negotiation of contracts for substantial quantities of gas and electricity for industrial use. In these cases, it was necessary to analyze property records, depreciation accrual rates and

reserves, rate base determinations, operating revenues, operating expenses, cost of capital and all other elements relating to cost of service.

In general, we are engaged in valuation and depreciation studies, rate work, feasibility, economic and cost of service studies and the design of rates for utility services.

In addition to our main office in St. Louis, the firm also has branch offices in Kerrville, Texas; Plano, Texas; Denver, Colorado; and Chicago, Illinois.

Q WHAT ADDITIONAL EDUCATIONAL, PROFESSIONAL EXPERIENCE AND AFFILIATIONS HAVE YOU HAD?

A I have completed various courses and attended many seminars concerned with rate design, load research, capital recovery, depreciation, and financial evaluation. I have served as an instructor of mathematics of finance at the Detroit College of Business located in Dearborn, Michigan. I have also lectured on rate and revenue requirement topics.

Q HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION?

A Yes. I have appeared before the New Jersey Board of Public Utilities, the Public Service Commissions of Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Missouri, Montana, New York, North Carolina, Ohio, Pennsylvania, South Carolina, South Dakota and West Virginia, the Lansing Board of Water and Light, and the Council of the City of New Orleans in numerous proceedings concerning cost of service, rate base, unit costs, pro forma operating income, appropriate class rates of return, adjustments to the income statement, revenue requirements, rate design, integrated resource planning, power plant operations, fuel cost recovery, regulatory

issues, rate-making issues, environmental compliance, avoided costs, cogeneration, cost recovery, economic dispatch, rate of return, demand-side management, regulatory accounting and various other items.

ILLINOIS POWER COMPANY

Derivation of Allowable Administrative and General Expense for Distribution Service
(Dollars in Thousands)

Line	Description	Operation & Maintenance Expenses (1)	Administrative & General Expenses (2)	A&G as a % of O&M (3)
	Last Order (1999 DST Case)			
1	IP Request	$ 77,224	$ 35,202	
2	Commission Approved	67,085	15,918	23.73%
	Current Case			
3	IP Request	$ 70,898	$ 47,141	
4	Recommended		16,823	23.73%
5	Reduction in Administrative & General Expenses		$ 30,318	

ILLINOIS POWER COMPANY

Derivation of Allowable Intangible and General Plant Investment for Distribution Service
(Dollars in Thousands)

Line	Description	1999 DST Case - IP Requested (1)	Commission Disallowance (2)	1999 DST Case Commission Order (3)	Current Case IP Requested (4)	Increase over Order Amount (5)	Increase over Order Percent (6)	Current Case IP Request before Adjustments (7)	Recommended (8)	
	Plant in Service:									
1	Intangible Plant	$ 58,769			$ 71,147			$ 63,479		
2	General Plant	171,817			204,382			193,902		
3	Total	230,586	(120,405)	110,181	275,529	165,348	150.07%	257,381		
	Depreciation Reserve:									
4	Intangible Plant	34,208			50,463			49,696		
5	General Plant	29,886			33,502			47,759		
6	Total	64,094	(29,111)	34,983	83,965	48,982	140.02%	97,455		
7	Net Plant	$ 166,492	$ (91,294)	$ 75,198	$ 191,564	$ 116,366	154.75%	$ 159,926	$ 111,110	(a)
8	Percent of Current Case IP Requested								58.00%	
	Depreciation Expenses:									
9	Intangible Plant			1,467	7,193	5,726	390.32%		4,172	(b)
10	General Plant			1,432	5,244	3,812	266.20%		3,042	(b)
11	Total			$ 2,899	$ 12,437	$ 9,538	329.01%		$ 7,214	
	Operation & Maintenance									
12	Expenses			67,085	70,898	3,813	5.68%			
	Rate Base:									
13	Net Plant			777,114	1,099,066	321,952	41.43%			
14	Net General & Intangible Plants			75,198	191,564	116,366	154.75%			
15	Difference			701,916	907,502	205,586	29.29%			
16	Net General & Intangible Plant			75,198	191,564					
17	Total Rate Base			661,549	943,394					
18	Percent			11.37%	20.31%					

(a) Prior Case authorized level of net Intangible and General Plant is increased in proportion to O&M Expense plus current adjustments.
(b) Current Case IP Requested * Line 8

IIEC Exhibit 3
Schedule 2

ILLINOIS POWER COMPANY

Comparison of Revenue Requirements
Filing in Prior Case with Filing in Current Case
(Dollars in Thousands)

Line	Description	Residential (1)	Non-Res Small Use (2)	Non-Res Lighting (3)	Com-mercial (4)	Non-Res Demand (5)	Total Juris-diction (6)
	Prior Case (1999 DST)						
	Revenues Required:						
1	Demand Transmission	$ 847			$ 512	$ 523	$ 1,882
2	Demand Subtransmission	17,490			881	20,502	38,873
3	Demand Distribution	117,205			8,827	69,739	195,771
4	Customer Components	40,686			20,894	10,441	72,021
5	Subtotal	176,228			31,114	101,205	308,547
6	Miscellaneous Revenues	-			-	-	-
7	Total Revenues Required	$ 176,228			$ 31,114	$ 101,205	$ 308,547
	Current Case						
	Revenues Required:						
8	Demand Transmission	$ 2,521	$ 91	$ 79	$ 170	$ 2,353	$ 5,044
9	Demand Subtransmission	18,781	677	593	1,270	17,530	37,581
10	Demand Distribution	114,369	4,077	3,377	7,454	57,722	179,545
11	Customer Components	52,858	4,847	17,297	22,144	14,544	89,546
12	Subtotal	188,529	9,692	21,346	31,038	92,149	311,716
13	Miscellaneous Revenues	(2,593)	(364)	(14)	(378)	(6,403)	(9,374)
14	Total Revenues Required	$ 185,936	$ 9,328	$ 21,332	$ 30,660	$ 85,746	$ 302,342
	Increase						
	Revenues Required:						
15	Demand Transmission	$ 1,674			$ (342)	$ 1,830	$ 3,162
16	Demand Subtransmission	1,291			389	(2,972)	(1,292)
17	Demand Distribution	(2,836)			(1,373)	(12,017)	(16,226)
18	Customer Components	12,172			1,250	4,103	17,525
19	Subtotal	12,301			(76)	(9,056)	3,169
20	Miscellaneous Revenues	(2,593)			(378)	(6,403)	(9,374)
21	Total Revenues Required	$ 9,708			$ (454)	$ (15,459)	$ (6,205)

ILLINOIS POWER COMPANY

Comparison of Current and IIEC Recommended Rates

Line	Description	Current Rates (1)	Recommended Rates (2)	Recommended Increase Amount (3)	Recommended Increase Percent (4)
	Facilities Charges per Month:				
1	2.4 kV - 12.47 kV	$ 280.14	$ 322.74	$ 42.60	15.21%
2	34.5 kV - 69 kV	660.54	760.98	100.44	15.21%
3	138 kV and Above	1,786.62	2,058.29	271.67	15.21%
	Metering Charges per Month:				
4	2.4 kV - 12.47 kV	94.86	109.28	14.42	15.20%
5	34.5 kV - 69 kV	99.46	114.58	15.12	15.20%
6	138 kV and Above	113.38	130.62	17.24	15.21%
	Demand Charges per Maximum kW for Cust with Dist kW > 1,000 kW:				
7	12.47 kV and Below	$ 1.948	$ 2.244	$ 0.296	15.20%
8	34.5 kV - 69 kV	0.239	0.275	0.036	15.06%
9	138 kV and Above	0.015	0.017	0.002	13.33%
	Distribution Capacity Charges per kW for Cust with Dist kW > 1,000 kW:				
10	12.47 kV and Below	$ -	$ -	$ -	
	Transformation Charges per kW:				
11	for Cust with Dist kW < 3,000 kW	$ 0.500	$ 0.576	$ 0.076	15.20%
12	for Cust with Dist kW > 3,000 kW	0.750	0.864	0.114	15.20%
	Reactive Demand Charges:				
13	All kVAr	$ 0.100	$ 0.115	$ 0.015	15.00%